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SUBJECT: APEC COMMERCIAL DELIVERABLES: AMBASSADOR'S MEETING WITH OOG
VICE CHAIRMAN PHUC

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¶1. (SBU) Summary: The Ambassador met with Nguyen Xuan Phuc, Vice
Chairman of the Office of Government (OOG) (the Prime Minister's
office), on November 3 to discuss the status of pending commercial
projects involving American firms in advance of the President's
visit to Vietnam. The Ambassador reviewed the status of progress on
eight pending commercial deals and outlined desired outcomes for
each project at the time of the President's visit. While Vice
Chairman Phuc responded positively to many of these projects, and
pledged that the GVN was looking seriously at what could be
achieved, he did not provide concrete assurances that any of the
endeavors would be concluded by mid-November. End Summary.

Pending Commercial Projects

¶2. (SBU) The Ambassador began by highlighting the proposed sale of
ten 787 aircraft to Vietnam Airlines by the Boeing Company, noting
that aircraft orders have a large impact on the bilateral trade
balance. With Vietnam's exports to the United States continuing to
accelerate and set to exceed American exports by a factor of
nine-to-one in 2006, the Ambassador noted that such a large trade
imbalance has political and economic consequences. The need to move
trade more toward balance and to provide for growth in U.S. exports
heightens the importance of this aircraft deal. The Ambassador
indicated that we seek a clear signal or announcement that Vietnam
Airlines intends to buy Boeing aircraft.

¶3. Continuing the discussion of the proposed Boeing procurement, the
Ambassador sought to draw a distinction between the Boeing 787
aircraft and the A350 plane that Airbus is hoping to develop as a
competitor model. Addressing the perceived price advantage of the
Airbus aircraft, the Ambassador noted that fuel efficiency and
reliability, in addition to initial price, are all important
considerations in the selection of an aircraft. The Ambassador also
noted that the 787 is a known quantity while the A350 is simply a
proposed project. Boeing is prepared to sit down with Vietnam
Airlines to discuss the range of factors involved in the purchase,
including price. For these discussions to be productive, Boeing

must have definitive information on how many planes the Airline intends to procure and the desired delivery schedule; and must receive a refundable deposit of USD 155,000 for each plane to be ordered. The Ambassador also highlighted the support provided by the U.S. Eximbank to guarantee financing for the original Boeing 777s purchased by VNA in 2001 and the USD 413 million Preliminary Commitment that has just been approved by the Eximbank board in support of the Airline's initial order last year of four 787s.

14. (SBU) Moving on, the Ambassador addressed two major power projects American firms are seeking to develop; the 1000mw AES facility proposed for Mong Duong in Quang Ninh Province; and the 770 to 990 mw Gannon plant to be located in southern Dong Nai Province. Citing the \$1.4 billion AES facility, the Ambassador noted that this project addresses needs identified by the GVN to develop more electricity generating capacity and to attract greater levels of U.S. investment. The Ambassador noted the AES goal of completing a project principles agreement by the time of APEC may prove difficult, but urged progress in this regard. The Ambassador also highlighted the pending \$322,000 grant the U.S. Trade and Development Agency (TDA) has offered to provide technical assistance to the Ministry of Industry in negotiating contracts and agreements associated with the AES project. The Ambassador urged that efforts be made to have the grant agreement covering this project signed during APEC, also noting the agency had selected Vietnam as its "Country of the Year" in 2006. The Ambassador provided Phuc with an advance copy of a letter addressed to Prime Minister Nguyen Tan Dung from the TDA Director, informing the PM of the country of the year designation. (Note: In a subsequent meeting with the Ambassador on November 6, AES executives indicated that the signing of a project principles agreement was no longer a feasible goal for APEC. The firm is now suggesting it may seek to conclude a "project development agreement" with its Vietnamese joint-venture partner, Vinacomin, during APEC. End Note).

15. (SBU) Addressing the second proposed U.S. power project, the Ambassador noted that the Gannon Group's gas-fired generating

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facility has received support from the government and party in Dong Nai Province, as well as from the Ministry of Planning and Investment. The Ambassador urged that the proposed project be included in Vietnam's power master plan and that the GVN clear the way for negotiations to commence with state-owned PetroVietnam on gas supply and Electricity Vietnam regarding a power purchase agreement.

16. (SBU) Switching to the financial services sector, the Ambassador raised the long-pending insurance operating license being sought by Liberty Mutual. He referenced indications are that the Ministry of Finance is likely to grant a license in December, with a letter committing to this timetable being issued before APEC. The Ambassador suggested this would be a welcome development, but even more welcome would be the issuing of the actual license at that time.

17. (SBU) The Ambassador then raised a pending sale to cell phone operator VinaPhone of some USD 12 million in cellular infrastructure equipment for which Motorola is bidding. The Ambassador highlighted Motorola's long history in Vietnam and world-class technology, urging the firm's proposal be given serious consideration and that efforts be made to make a selection in time to arrange a contract signing during APEC.

18. (SBU) Turning back to major pending American investments, the Ambassador expressed pleasure that SSA Marine had recently been awarded an investment license to develop a major facility at the southern port of Cai Mep. He urged prompt consideration for the firm's second proposed port project at Cai Lan, in the north.

19. (SBU) He also raised the substantial investment in the minerals sector under consideration by Alcoa. The Ambassador outlined the interest of Alcoa in obtaining approval of the Prime Minister's office for a memorandum of understanding (MOU) with stated-owned Vinacomin to explore the feasibility of developing a \$1.5 billion bauxite mine in Vietnam's central highlands. Approval of the

proposed MOU would be an important step toward implementing a market economic project in under-developed Dak Nong Province.

¶10. (SBU) Drawing the discussion of pending commercial issues to a close, the Ambassador raised a relatively small, but significant project to build a cold storage facility in HCMC by the U.S. firm Antara. He urged that the firm's request for an extension of the term for its investment license be granted. The Ambassador concluded his presentation on commercial deliverables by handing Phuc an advance copy of a letter from Secretary of Commerce Gutierrez. The letter, addressed to Prime Minister Dzong, sought his intervention in seeking to maximize progress on these matters in advance of the President's visit.

Phuc Responds

¶11. (SBU) The Vice Chairman's response to the Ambassador's presentation was positive, but non-committal. He noted that Airbus had offered very good financial terms for its proposed A350 aircraft and though Vietnam very much wanted to purchase the Boeing 787, pricing is an important factor. Phuc commented that he was aware of good results being achieved on the AES project and that a final decision was awaited from the Prime Minister, which he hoped would be taken in time for the MOU to be signed during APEC. He indicated he would push for consideration of the Gannon proposal, as well as the Liberty Mutual license. For the Cai Lan port, Phuc noted that many firms wished to invest in Vietnam's port facilities and made only cursory comments about a number of the other projects raised, including Motorola, and Antara. In summation, Vice Chairman Phuc indicated that Vietnam authorities and involved firms were working hard on each of the projects identified by the Ambassador, noting that the Prime Minister had given instructions that negotiations on these projects be accelerated.

MARINE